



# AGENCIES OF THE SECRETARY OF TRANSPORTATION

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

This report communicates our fiscal year 2018 audit results for the Virginia Department of Transportation (Transportation) and the Department of Motor Vehicles (Motor Vehicles). Collectively, these agencies spent \$6.1 billion or 88 percent of the total expenses for agencies under the Secretary of Transportation.

Our audit of these agencies arises from our work on the Commonwealth's Comprehensive Annual Financial Report (CAFR). Overall, we found the following:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system, each agency's accounting records, and other financial information reported to the Department of Accounts (Accounts);
- four deficiencies at Transportation that we consider to be material weaknesses in internal control;
- additional matters involving internal control and its operation necessary to bring to management's attention for both Transportation and Motor Vehicles; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

This report includes a combination of deficiencies in internal control at Transportation such that there is a reasonable possibility that a material misstatement of financial information will not be prevented, or detected and corrected on a timely basis. As a result, these findings are considered material to Transportation and the Commonwealth's CAFR. The findings reported as material weaknesses relate to Transportation's controls over fiscal operations and are located in the report section titled "Internal Control and Compliance Findings and Recommendations."

This report also includes information regarding a financial reporting initiative for Transportation requiring management's attention. This information can be found in the report section titled "Comment to Management."

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## COMMENT TO MANAGEMENT

### **Applicable to:** Transportation

The funding and operations of the transportation system in the Commonwealth of Virginia (Commonwealth) are complex. For example, in order to fund several recent improvement efforts, the Commonwealth has entered into service concession arrangements with third parties. In these arrangements, the third party agrees to fund the improvements and operate the facility in exchange for the Commonwealth providing them the right to collect tolls. In another example, legally separate entities are created to provide the Commonwealth with funding for improvements. These separate entities, if operated in a certain manner, become a component unit of the Commonwealth for financial reporting purposes. For both service concession arrangements and component units, the accounting standards have equally complex reporting requirements to ensure the substance of the funding is properly reflected in the financial statements.

Regardless of the source of the funding, much of the improvement efforts for the transportation system result in assets that provide a future benefit to the Commonwealth. These assets come in many forms, from equipment that will last for few years to infrastructure that can last for a generation. Each time the Commonwealth enters into a new transaction, it needs to determine if it will result in an asset for the Commonwealth. If it is a Commonwealth asset that will last beyond one year, Transportation needs to determine how long it is expected to last and what, if any, depreciation method would be appropriate to properly estimate the future value of the asset.

Additionally, to construct and operate the transportation system in the Commonwealth, Transportation must process hundreds of individual transactions each day that have a financial impact. Once a year, before required deadlines, Transportation staff must sort through tens of thousands of individual transactions to determine how to classify each one at year-end. For example, staff have to determine if a payment after year-end actually generated a capital asset before year-end and whether the federal government will participate in the funding of that asset. This one simple payment after fiscal year-end could result in the capitalization of an asset and a booking of a year-end payable with some portion of it resulting in a receivable from the federal government.

While funding and operations of the transportation system for the Commonwealth are complex and always changing, there is the expectation that Transportation will translate it all accurately for financial reporting using the applicable accounting standards. Over the past several years, we have reported significant challenges with each of the above areas. Transportation should make enhancements to its financial reporting process to be proactive in preventing future challenges. The reason for this is that funding and operations of the transportation system in the Commonwealth and resulting financial reporting are not expected to stop changing or become less complex.

Transportation's management recognizes, and we agree, that management must take additional proactive actions to ensure fiscal staff have a proper interpretation of reporting requirements and a better awareness of high-level financial decisions, and interactions with funding partners, or Transportation will continue to have challenges in the future. As a result, we recommend that

management follow through on their commitment to hold collaboration meetings between the Chief Financial Officer and Financial Planning and other divisions. The parties should hold these meetings as needed during the year to share changes in financing, operations, or financial reporting requirements. Additionally, a standing agenda item of business for each meeting should be discussions about changing financial arrangements, whether it be from issuance of debt, service organizations, or other funding partners, which would include potential component units.

Additionally, Transportation should systematically evaluate all of its financial transactions and operations to determine if each one is properly classified as of fiscal year-end using the appropriate financial reporting requirements. One example would be that the Commonwealth must report its net investment in capital assets on a single line. This line is calculated as capital assets less the related debt; however, some of the debt held by the Commonwealth was used to fund assets of localities, not the Commonwealth. As such, Transportation should determine how the Commonwealth's debt related to local capital assets should be classified within the net position section of the Statement of Net Position. As part of the process of evaluating all financial transactions, Transportation should work with the Department of Accounts to ensure that it is properly translating the underlying transaction from operations for financial reporting. Where clarification is needed, Transportation and Accounts should collaborate to develop a clear set of expectations, which can be captured in a directive from Accounts and closing procedures for Transportation. Finally, Transportation may be able to use this effort as an opportunity to analyze its business processes surrounding operations and financial reporting to determine if changing the approach or finding a new method, such as using a year-end estimate rather than spending valuable staff hours determining actual, will result in accurate information and efficiencies to meet required deadlines.

The above enhancements, with strong leadership and support, could go a long way to improve future financial reporting of the Transportation system of the Commonwealth. However, Transportation should not view the content of this comment to management as a remedy for all current and future deficiencies and should design, implement, and maintain other processes as needed for financial reporting to properly interpret the ever changing funding and operations of the transportation system.

## **INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS**

This section is organized by agency and each finding reported includes information on the type of finding and the severity classification for the finding. The severity classifications are discussed in more detail in the section titled "Independent Auditor's Report." In addition, we have designated findings that report on issues that were not resolved from our previous audit and are repeated in this report.

## DEPARTMENT OF TRANSPORTATION

### Why the APA Audits Financial Reporting

Transportation processed over \$5.8 billion in expenditure transactions during the fiscal year and submitted over 60 financial statement attachments and disclosures to Accounts to support the development of the Commonwealth's CAFR at year-end. We reviewed Transportation's financial reporting procedures and information to Accounts to ensure both adhered to the applicable standards and would disclose the substance of the underlying activity. Subsequently, our testwork resulted in the following five management recommendations related to financial reporting, four of which we consider to be material weaknesses.

### **Identify and Evaluate Changes to Previously Identified Component Units for Financial Reporting**

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** No

Transportation did not properly evaluate changes to a previously identified potential component unit to determine whether the changes would affect the previously determined classification for inclusion in the Commonwealth's CAFR. During fiscal year 2018, the Hampton Roads Transportation Accountability Commission (HRTAC) issued \$582 million in revenue bonds to support construction projects in the Commonwealth's Hampton Roads region. HRTAC supports this debt with tax revenue that it receives from Transportation. Further, current project plans will result in Commonwealth assets. These conditions require that the Commonwealth report HRTAC as a component unit in the CAFR, including the \$582 million in revenue bonds that it issued in fiscal year 2018. By not including HRTAC within the CAFR, Transportation could inadvertently mislead users of the financial statements on how Transportation funds new construction of certain Commonwealth assets in the Hampton Roads area.

The Comptroller's Directive No. 1-18, created by Accounts, requires agencies to update its component unit checklist if the potential component unit has experienced a change(s) that might affect its classification in the CAFR. Transportation did not identify this change because it did not have a procedure in place to evaluate previously reported potential component units to determine whether there is a change in circumstances that may affect an entity's classification for reporting in the CAFR. Additionally, Transportation did not appear to be actively reviewing HRTAC's audited financial statements for changes in operations and evaluating their effect on the previously determined classification.

Transportation should implement procedures to evaluate previously reported potential component units to determine whether there is a change in circumstances that may affect an entity's classification for the CAFR. These procedures should also extend to new potential component units. By

doing such, Transportation will be able to assure itself and Accounts that the CAFR is complete and properly reflects the activity of all potential component units, where necessary.

**Improve Financial Reporting of Infrastructure Assets with Proactive Policies and Procedures**

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** No

Transportation does not have sufficiently detailed policies and procedures (policies) over the financial reporting of infrastructure assets. Documented policies do not always accurately reflect how Transportation's Fiscal Division (Fiscal) prepares the infrastructure amounts for the capital asset submission to Accounts for inclusion in the CAFR. Fiscal did not update policies until after year-end and submission preparation, bringing into question the operational effectiveness of policies documented after the fact. As a result, Transportation overstated net capital assets by \$81.1 million, as detailed below:

- Fiscal does not have policies to ensure that listings of new projects for annual review are complete and reasonable. Fiscal did not review all new projects for fiscal year 2018 because the listing of new projects was incomplete. The projects missing from the list were inappropriately included in infrastructure, resulting in a \$29.5 million overstatement of net asset balances.
- Infrastructure policy does not include a general review of projects with significant life to date expenditures to ensure projects are capitalizable and meet the requirements for infrastructure inclusion. Fiscal did not perform a high-level review of projects because the current policies do not include this type of review. As a result, Fiscal inappropriately capitalized three years of oversight expenditures for a high profile, bus rapid transit project that the Commonwealth does not own, overstating infrastructure by \$50.8 million.
- Infrastructure policy does not address access and change controls over the reporting category field used in the Commonwealth's accounting system to identify projects for, or exclusion from, capitalization to ensure the integrity and reliability of the data field. Other Transportation divisions can use the reporting category field for other purposes. Non-capitalizable reporting categories were removed from various projects without Fiscal's knowledge, resulting in the inclusion of \$597,000 of non-capitalizable project expenditures in infrastructure assets. In addition, Fiscal did not detect changes in reporting categories of projects between fiscal years resulting in Fiscal overstating infrastructure assets by \$160,000 because projects changed from capitalizable to non-capitalizable. In both instances, if Fiscal had not detected the changes at the beginning of a project's life, the amount of inappropriately capitalized expenses could have grown significantly over the life of the project, potentially resulting in material misstatements. Since Fiscal only reviews the reporting category

for new projects each year, the risk that the reporting category on a previously reviewed project could be changed without Fiscal's knowledge is high.

When the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement No. 34 in 2002, Transportation decided that the most efficient way to capitalize road infrastructure was to use programmatic funding because construction and maintenance programs were separate. This created a simple process for identifying infrastructure expenses for capitalization. Over the years, Transportation's programmatic funding gradually changed, leading to a blurred line between maintenance and capitalizable construction projects. Starting in fiscal year 2017, the General Assembly significantly changed Transportation's programmatic funding streams and their purpose, resulting in further complexities, as programs could have capitalizable maintenance projects, capitalizable construction projects, and expensed projects in the same program. Fiscal had to adapt its infrastructure capitalization policies to reflect the new programmatic coding. Fiscal began to use reporting categories to label each project for inclusion or exclusion from infrastructure. As a result, Fiscal has to perform a highly manual process to determine which projects to either include or exclude from work in process, based on the reporting categories, increasing significantly the risk of errors and omissions.

Fiscal relies on their experienced staff who understand the complex infrastructure capitalization process to determine the capitalization amount of road infrastructure each year, and as a result, did not see the necessity of updating policies before producing the submission. However, without these experienced staff or detailed policies, Fiscal may not be able to complete the capital asset submission that supports over \$28.3 billion in Commonwealth assets. In addition to the deficient areas described above that resulted in misstatements, the infrastructure policies are deficient in the following areas:

- Fiscal does not have a procedure to identify any accounting adjustments necessary to prior infrastructure asset amounts when a reporting category changes between years. This is critical because the reporting category applies to the expenses for the life of a project.
- Infrastructure policy does not adequately address the collaboration necessary between various Transportation departments for the gathering of information and data regarding infrastructure assets.
- Infrastructure policy does not include control procedures for validating queries and determining whether the data obtained from other departments is reasonable and meets the needs of Fiscal's reporting requirements.

The State Comptroller's annual Directive requires Transportation to report capital assets, including infrastructure, for inclusion in the CAFR. The Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) 20905 requires each agency to develop its own internal policies that are approved in writing by agency management. The agency's policies are to be up-to-date to reflect current operations. In addition, best practices indicate that an agency should document, review, and update policies regularly to ensure policies are clear, concise, and adequately address operational risks identified and to keep pace with programmatic changes instituted within the agency. CAPP Topic 30200,



Asset Acquisition, requires agencies to implement internal control procedures to ensure that: all assets are recorded at their proper value, the method of valuation is properly documented, and that all assets are periodically reviewed to avoid material overstatement.

The process over reporting infrastructure assets has become so complex that making a mistake or not discovering an unauthorized change in just one data field in the Commonwealth's accounting system on one project is a significant risk and can have material effects on depreciable or non-depreciable assets. In the event key personnel turn over, Fiscal may not be able to produce the capital asset submission without detailed and sufficient policies. This could result in the Auditor of Public Accounts qualifying its opinion on the CAFR due to the magnitude of the Commonwealth's roadway infrastructure. If Fiscal does not properly review and validate queries used to generate the raw data for manipulation into the proper infrastructure classes; determine new projects; or review the reasonableness of data obtained from other divisions within Transportation, Fiscal risks materially misstating the Commonwealth's assets. The lack of adequate policies and misstatements discussed above constitutes a material weakness in the Fiscal Division operations of Transportation.

Fiscal should design, implement, and ensure the operational effectiveness of internal controls over the financial reporting of infrastructure assets so that the preparation of the capital asset submission to Accounts is accurate and reasonable. Considering all of the complexities involved in the infrastructure capitalization process, Fiscal should implement and document policies that appropriately reflect this complexity. Fiscal should proactively review and update the policies annually and provide for the possibility that key, experienced staff may terminate employment at any time. Fiscal should document and follow detailed desk procedures to accurately prepare the multiple distinct and complex infrastructure schedules to support the capital asset submission. Additionally, Fiscal should provide for adequate review of all data and information used to compile the capital asset submission, including review of prior project labeling to ensure capitalization is appropriate from year to year.

#### **Evaluate Invoices for Goods or Services Provided Across Multiple Fiscal Years**

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** No

Transportation is not reviewing and evaluating certain payments after fiscal year-end to determine if the expenses need to be accrued and included in Transportation's accounts payable submission to Accounts. Specifically, Transportation does not review or evaluate invoices for goods or services provided across multiple fiscal years when preparing its accrual submission to Accounts. In July and August 2018, Transportation processed 752 payments for construction and architecture and engineering services related to highway construction projects for approximately \$237 million.

Contractors invoice Transportation on a monthly basis for charges incurred during the billing period. Therefore, some of the billing periods contained within the invoices remitted by contractors cross fiscal years. This issue is more prevalent to the invoices billed in July than in August. Transportation performed a subsequent analysis after the auditors brought this matter to their attention and estimated that current year payables were about to be understated by approximately \$97 million. Because many

of these expenses relate to the construction of capital assets and due to Transportation not completing this evaluation in prior years, the effect on ending net position and current year expenses, respectively, for the Commonwealth is limited.

Generally Accepted Accounting Principles (GAAP) accrual basis of accounting using the economic resources measurement focus requires that the entity record expenses when the corresponding liability is incurred, regardless of the timing of cash flows. Additionally, Accounts' 2018 Fiscal Year-End Closing Procedures, states that "if an agency processes transactions using only one voucher, where the transactions cross fiscal years, the cumulative impact of not separating these transactions should be monitored and reported to Accounts if it becomes significant." Accounts requires agencies to report this matter if the net dollar impact is greater than \$100,000. Without evaluating whether invoices for goods or services provided across fiscal years should be fully or partially accrued at fiscal year-end, Transportation risks significantly understating the accounts payable line item included in the CAFR. This type of understatement could cause a user of the CAFR to consider the Commonwealth's payables more favorably than what the user may believe had Transportation done an analysis of expenses and reported a related payable.

Transportation should develop and implement procedures to estimate accruals for invoices with goods and services that cross multiple fiscal years. When developing these procedures, Transportation should consider identifying vendors that bill for services over a period of time (i.e., monthly or quarterly), as payments for these services will likely require partial accrual at fiscal year-end. Transportation should then discuss any matters that it deems significant with Accounts to evaluate if these transactions should be reported within the Commonwealth's CAFR.

#### **Enhance Review of Accounts Receivable for Financial Reporting**

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** No

Transportation did not complete several aspects of its Accounts Receivable submission to Accounts correctly, which resulted in several material adjustments. During the audit, the Auditor of Public Accounts and Accounts identified the following misstatements in Transportation's Accounts Receivable submission:

- Transportation did not report a receivable balance for an outstanding loan with the Route 28 Transportation Improvement District of approximately \$73 million.
- Transportation did not report noncurrent loan receivables within the correct column of its Accounts Receivable submission to Accounts. This required a reclassification adjustment of approximately \$183 million.

While these submissions were subject to several levels of review, the reviewers did not identify these errors during the review process. This oversight was attributed to the operational complexities associated with the generation of accounts receivable at Transportation and the lack of updated policies

in this area. By not correctly reporting this information in its financial statement submissions to Accounts, Transportation could inadvertently lead users of the financial statements to make faulty decisions about Transportation's operations.

Transportation should update its policies to ensure it covers all requirements communicated by Accounts and work with Accounts to obtain clarity where necessary. Additionally, Transportation should also consider having individuals, separate from its financial reporting function that are familiar with the accounts receivables generated by operations, perform a review of accounts receivable information before it is submitted to Accounts to aid in assuring that the results of operations are properly reflected in the CAFR.

### **Improve Policies over Service Concession Arrangements**

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** Partial (first issued for fiscal year 2017)

**Prior Title:** Improve Internal Controls over Financial Reporting of Service Concession Arrangements

Transportation's policies covering the determination of and accounting for service concession arrangements are incomplete and vague in some areas. Some aspects of the policies are not detailed enough to ensure operational effectiveness of the policy, for example, not clearly defining how to identify all projects to include in service concession arrangement work in process.

Fiscal created the current policy as an initial response to the prior year material weakness in financial reporting. Service concession arrangement projects are highly complex and the proper reporting of these arrangements requires coordination between several Transportation divisions, analysis of complex agreements, and compilation of work in process from multiple project sources. We found the following issues:

- The service concession policy does not include direction on how to allocate concessionaire-funded costs, Transportation public contributions, or oversight costs between depreciable and non-depreciable assets, which was a major contributing factor in the prior year material weakness.
- The service concession policy is inconsistent on which projects to include in the service concession work in process during construction. One section says oversight projects are in normal work in process and capitalized every two years, and another section says oversight projects are included in service concession arrangement work in process until the constructed assets are complete. This distinction was the major contributing factor in the material misstatement and weakness reported in the prior year. The policy should clearly define the service concession arrangement work in process to include expenditures from concessionaire funded projects, oversight projects, and public contribution projects. Fiscal should keep the expenditures for all of these projects in work in process until the service concession arrangement asset is

complete and turned over to Transportation. At that time, Transportation should capitalize the resulting asset.

- The service concession policy provides inadequate direction on how to determine the projects associated with each service concession arrangement and ensure that the list is complete.
- The service concession policy provides guidance on disclosing the existence and value for projects completed as extensions of existing service concession arrangement assets; however, Fiscal did not follow the policy. Fiscal reported a new extension to the I-95 Express Lanes service concession arrangement assets in the footnote disclosure but did not disclose its \$25.7 million value. Additionally, Fiscal did not follow standard work in process accounting rules when Fiscal capitalized current year expenditures directly as an asset rather than running them through work in process. Fiscal understated current year work in process increases and decreases by \$15.1 million.
- The service concession policy does not include control procedures for validating or reviewing for reasonableness queries and data obtained from other departments.
- The service concession policy does not adequately address the collaboration necessary between various Transportation departments for the gathering of information and data regarding service concession infrastructure assets.

Service concession arrangements are complex and involve large expenditures over several years. If Fiscal's policies do not include adequate guidance for the potential complexities of service concession arrangements, there is a significant risk of misstating capital asset balances.

Fiscal should strengthen, clarify, and expand the current policies to provide clear guidance on how to identify projects to include in service concession arrangement work in process. Fiscal policies should include direction on how to accurately account for the potential mix of depreciable and non-depreciable assets generated from a typical service concession arrangement. Within the policies, Fiscal should improve documentation of the involvement of responsible parties and departments in the review, collaboration, and determination of critical disclosures or accounting requirements. Fiscal should document and implement a policy that all concessionaire-funded, Transportation public funded, and oversight projects are included in work in process for the life of the service concession arrangement project cycle and capitalized upon completion.

### Why the APA Audits Payroll and Human Resources

Transportation's payroll expenditures exceeded \$686 million during the fiscal year. Transportation employs over 8,000 salaried and wage employees across the Commonwealth. To determine whether Transportation's payroll and human resources controls were adequate, we compared agency practices against their own policies as well as the requirements set by the Accounts and Department of Human Resource Management. Our testwork resulted in the following management recommendation.

#### **Continue to Strengthen Internal Controls over the Employee Separation Process**

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued for fiscal year 2017)

**Prior Title:** Complete Separating Employee Checklist Timely

In the past year, the Human Resources Division (Human Resources) at Transportation has started to strengthen internal controls over the employee separation process. However, Human Resources was not able to fully implement corrective actions and as a result, we identified the following six deficiencies, 24 percent, for the 25 employee separations that we sampled and tested:

- Human Resources was unable to provide a Separating Employee Checklist for one individual, four percent.
- Supervisors did not complete the Separating Employee Checklist on or before the employee's separation date for five individuals, 20 percent.

According to Human Resources' instructions for completing the Separating Employee Checklist, supervisors are required to complete the checklist on or before their separation date to ensure separating employees are returning property belonging to and money owed to Transportation. Human Resources was unable to fully implement corrective action during the period under review because of the amount of effort involved with correcting this issue.

In March 2018, Human Resources revised the Employee Separating Checklist and launched this along with a standard operating procedure outlining roles and responsibilities and the new procedure for collecting the checklists. This information was communicated to all Transportation supervisors and District Human Resources Managers following the rollout. In July 2018, Human Resources developed a scorecard to monitor and measure compliance with this policy. Finally, Human Resources developed an automated process of ensuring Separating Employee Checklists are uploaded to its document repository and is working to ensure that checklists are being completed for all separated employees.

Transportation employs over 8,000 employees and had over 600 separations during the period under review. Without effective oversight, it is difficult for Transportation to ensure that it is collecting property and money owed to Transportation from separating employees and disabling access to mission critical systems in a timely manner. Human Resources should continue its planned corrective action to strengthen internal controls over the employee separation process.

## DEPARTMENT OF MOTOR VEHICLES

### Why the APA Audits Systems Access and Information System Security

Motor Vehicles collects, manages, and stores significant volumes of financial and personal data within its mission critical systems. Because of the highly critical nature of this data, Motor Vehicle's management must take all necessary precautions to ensure the availability, integrity, and security of the data within its systems. We compared Motor Vehicle's practices to those required by the Commonwealth's Information Security Standard, SEC 501 (Security Standard) in the areas of database security, web application security, oversight of sensitive systems, and information system access. Subsequently, our information system security testwork resulted in the following recommendation to management.

### Ensure Timely Notification of Terminations and Transfers

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Motor Vehicles did not remove access to various agency and statewide systems in a timely manner for employees who either had separated from the agency or changed job responsibilities. We noted untimely removal of employee access for each of the four systems we tested. Of the 70 employees we tested for proper access, Motor Vehicles needed to remove access for 11 employees during the year. Of the 11 employees who needed their access removed, Motor Vehicles did not remove the access timely for four employees. Of the four employees with untimely removal of access, one continued to have access to the agency's financial system over five months after transferring to a position that no longer required access and the remaining three employees continued to have access to various systems for as long as two months after their termination.

The Commonwealth's Security Standard, Access Management Section AC-2, requires the organization to notify account managers when users are terminated or transferred. In addition, Motor Vehicles' Information Technology Access Control Policy calls for prompt termination of systems access upon termination or transfer. Untimely deletion of access to systems can expose the agency to

inappropriate activity by individuals no longer employed by the agency or no longer in their previous position.

While Motor Vehicles eventually removed access following internal systems access reviews, supervisors were not completing System Access Request forms (SAR-13s) in a timely manner to notify the necessary parties to remove systems access. Management should evaluate their SAR-13 systems access removal process to ensure timely notification to the necessary parties. Management should also consider whether supervisors are the best initiators of this process or if another party should be responsible for initiating this process.

### **Improve Information Technology Change Management Program**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Yes (first issued for fiscal year 2017)

Motor Vehicles made improvements to their change management process and documentation to address the weakness communicated in our prior year audit report. Motor Vehicles established and implemented an interim solution for change and configuration management to record and track changes until it begins using a new software tool. However, not all users follow the interim solution, which increases the risk malicious users could compromise the confidentiality, integrity, and availability of sensitive data. Additionally, one department continues to conduct configuration changes using their own process and does not follow the agency-wide interim solution. Having a department using their own process can lead to inconsistent implementation of changes that could affect the confidentiality, integrity, and availability of mission essential data. The Commonwealth's Security Standard, Section CM-3, requires Motor Vehicles to document proposed changes, audit and review activities associated with system changes, and retain records of system changes for a minimum of one year.

Motor Vehicles plans to use the new change and configuration software tool beginning in December 2018. The fiscal year 2019 audit will evaluate Motor Vehicle's change and configuration management documentation and process to determine if it meets the minimum requirements set by the Security Standard.

### **Why the APA Audits Compliance with Employment Eligibility Guidelines**

Motor Vehicles employs over 2,000 employees across the Commonwealth and hires a significant number of employees each year. Noncompliance with federal government employment eligibility guidelines could result in financial penalties. To evaluate controls and compliance for employment eligibility, we reviewed Motor Vehicles' procedures and actions for verifying identity and employment eligibility and compared both to requirements set by the federal government and the Code of Virginia. Our testwork over employment eligibility resulted in the following management recommendation.

## **Improve Training on and Monitoring of the Employment Eligibility Process**

**Type:** Internal Control and Compliance

**Severity:** Deficiency

**Repeat:** No

Motor Vehicles did not properly complete Employment Eligibility Verification forms (I-9s) for some new employees. Eighty percent, or 20 of 25 of the employees hired in fiscal year 2018 that we randomly selected for testing had the following errors with their I-9s:

- One I-9 did not have the required sections completed to verify employment eligibility.
- Hiring managers and new employees did not complete the I-9 in its entirety or within the required timeframes prescribed by federal requirements.
- Hiring managers did not always use a valid version of the I-9.
- Those making corrections to I-9s did not comply with federal requirements when whiteout was used to correct the I-9.
- Copies of the applicable documents used to support the I-9 were not always retained with the completed I-9.

The Immigration Reform and Control Act of 1986, requires that all employees hired after November 6, 1986, must have an I-9 form completed to verify both identity and employment eligibility. Additionally, the U.S. Department of Homeland Security's Guidance for Completing Form I-9 Handbook for Employers issued the U.S Citizenship and Immigration Services, known as the M-274, prescribes federal requirements for completing I-9 forms. Per M-274, completed I-9s must be retained for a period of at least three years from the date of hire or for one year after the employee is no longer employed, whichever is longer. Additionally, per the M-274, "if you choose to make copies of the documents, do so for all employees, regardless of national origin or citizenship status, or you may be in violation of anti-discrimination laws." Not complying with federal requirements could result in civil and/or criminal penalties and debarment from government contracts.

According to management, the following items have contributed to the conditions listed above. Human Resources delegates the completion of I-9 forms to the applicable hiring managers. However, Human Resources has not properly trained hiring managers to complete I-9 in compliance with the applicable legislative requirements and guidance issued by the Department of Homeland Security. Further, Human Resources is not performing an adequate review of I-9s to ensure hiring managers are properly completing them. Human Resources should provide adequate training and resources to hiring managers to reinforce the expectation to comply with the applicable federal and Commonwealth requirements. In addition, Human Resources should perform an adequate review of I-9 forms completed by hiring managers.





Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

## *Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 14, 2018

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation**, as defined in the Audit Scope and Methodology sections below, for the year ended June 30, 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Audit Objectives**

Our audit's primary objective was to evaluate the accuracy of the Agencies of the Secretary of Transportation's financial transactions as reported in the Comprehensive Annual Financial Report (CAFR) for the Commonwealth of Virginia for the year ended June 30, 2018. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, in each agency's accounting records, and in other financial information reported to the Department of Accounts for inclusion in the CAFR; reviewed the adequacy of their internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

### **Audit Scope and Methodology**

Management of the Agencies of the Secretary of Transportation have responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balance.

*Department of Transportation*

- Accounts receivable and revenues
- Accounts payable and disbursements
- Budgeting process
- Capital asset management
- Cash and debt management
- Commonwealth's retirement benefit system
- Contract procurement and management
- Employment eligibility
- Federal revenues and expenses
- Financial reporting
- Information security and general system controls
- Inventory
- Payroll and other expenses

*Department of Motor Vehicles, including Department of Motor Vehicles Transfer Payments*

- Accounts receivable and revenues
- Accounts payable and disbursements
- Commonwealth's retirement benefit system
- Employment eligibility
- Financial reporting
- Information security and general system controls

The Department of Aviation (Aviation), the Department of Rail and Public Transportation (Rail and Public Transportation), and Motor Vehicle Dealer Board also fall under the control of the Secretary of Transportation. However, these agencies are not material to the Comprehensive Annual Financial Report for the Commonwealth of Virginia. We have developed a new risk-based approach for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Aviation, Rail and Public Transportation, and the Motor Vehicle Dealer Board are reviewed by our office under this approach. The results of our review of these agencies can be found at [www.apa.virginia.gov](http://www.apa.virginia.gov). In addition, the Virginia Port Authority and Virginia Commercial Space Flight Authority, which also fall under the control of the Secretary of Transportation, were audited by other auditors, and their reports can be found at the link above. Accordingly, these agencies were not included in the scope of this report.

We performed audit tests to determine whether the agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the agencies' operations. We performed analytical procedures, including budgetary and

trend analyses. We confirmed cash and investments with outside parties. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

## **Conclusions**

We found that the Agencies of the Secretary of Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system(s), each agency's accounting records, and in other information reported to the Department of Accounts for inclusion in the Commonwealth's CAFR.

Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the section titled "Internal Control and Compliance Findings and Recommendations," we identified deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies in internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial information will not be prevented, or detected and corrected on a timely basis. We have explicitly identified four findings in the section titled "Internal Control and Compliance Findings and Recommendations" to be material weaknesses for the Commonwealth.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have explicitly identified four findings in the section titled "Internal Control and Compliance Findings and Recommendations" to be significant deficiencies for the Commonwealth.

As the findings noted above have been identified as material weaknesses or significant deficiencies for the Commonwealth, they will be reported as such in the "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards," included in the Statewide Single Audit Report for the year ended June 30, 2018. The Single Audit will be available on APA's website at [www.apa.virginia.gov](http://www.apa.virginia.gov) in February 2019.

In addition to the material weaknesses and significant deficiencies, we detected a deficiency in internal control that is not significant to the Commonwealth's CAFR, but is of sufficient importance to warrant the attention of those charged with governance. We have explicitly identified one finding in the section titled "Internal Control and Compliance Findings and Recommendations" as a deficiency.

The management has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

#### **Exit Conference and Report Distribution**

We discussed this report with management of Transportation and Motor Vehicles on January 14, 2019 and January 9, 2019, respectively. Management's response to the findings identified in our audit is included in the section titled "Agency Responses." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj



# COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION  
1401 EAST BROAD STREET  
RICHMOND, VIRGINIA 23219 2000

**Stephen Brich**  
Commissioner

January 22, 2019

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
Post Office Box 1295  
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Transportation appreciates the opportunity to respond to the Commonwealth Transportation Fund audit report for Fiscal Year 2018. Your review has identified opportunities for the Department to enhance its current practices to strengthen our financial reporting and internal controls, for which we give our highest level of attention and consideration. The Department concurs with your recommendations and is adding a position to our financial reporting team who will be focused on proactively identifying and evaluating the Department's material financial transactions and arrangements, documenting procedures, as well as preparing and reviewing infrastructure capitalization. This and our actions taken or to be taken as described below should address the areas of concern:

## **Comment to Management on Financial Reporting**

The Department concurs with Auditor of Public Accounts' (APA) recognition that the funding and operations of the transportation system in the Commonwealth are complex and that the financial reporting of the resulting funding arrangements and numerous transactions are equally complex. As noted in your report, the Department plans to enhance its current financial reporting practices to be more proactive in gaining awareness of high-level financial decisions and determining their reporting impacts. We also plan to thoroughly review our financial reporting processes to ensure correct interpretation and determine if a different approach would provide improved accuracy or efficiency.

## **Identify and Evaluate Changes to Previously Identified Component Units for Financial Reporting**

The Department understands the significance of reporting component units in the

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Commonwealth's Comprehensive Annual Financial Report (CAFR) and has successfully done so in the past. Our financial reporting procedures will be enhanced to include additional reviews of current and potential component units and to identify any changes affecting the reporting of these entities for the CAFR.

#### **Improve Financial Reporting of Infrastructure Assets with Proactive Policies and Procedures**

The Department appreciates the APA's review of its infrastructure capitalization procedures and its acknowledgement that identification and classification of infrastructure has become much more complex in the last two years due to changes in the programmatic funding process. We will review and strengthen our infrastructure capitalization procedures as needed, incorporating the areas identified by APA's review which included the development of detailed desk procedures, and ensuring they are updated annually. Additionally, the Department will review current processes for the identification of reportable infrastructure and employ additional controls to ensure consistency and accuracy.

#### **Evaluate Invoices for Goods or Services Provided Across Multiple Fiscal Years**

The Department acknowledges that a significant dollar amount of construction and architectural and engineering services involve billing periods that cross fiscal years. For FY 2018 the agency employed a new process to identify and segregate the portion of the services applicable to FY 2018 versus FY 2019. The new process was vetted with the Department of Accounts (DOA) and APA and the Department appropriately calculated the amount for FY 2018 as an accrual for financial reporting. We will use this process, with possible refinements, for future financial reporting.

#### **Enhance Review of Accounts Receivable for Financial Reporting**

Accurate financial reporting is extremely important and many refinements to the preparation and review of the Department's Accounts Receivable submission to DOA have occurred over the past several years. The unreported loan receivable from Route 28 Transportation Improvement District for debt service identified in the audit was from a bond issuance and agreement initiated in 1988. The debt service payment received from the District was treated as revenue annually in the years since debt issuance; however the entire amount of debt service to be received over the life of the debt had never been included as a receivable. The other item identified in the audit related to three long-term loans receivable amounts not specifically identified as long term on a special column on the submission to DOA. To ensure accuracy of reported loans receivable, the Department will initiate processes to identify and report new and existing debt issued that is supported by others and related receivables from those entities. For the other item, we have updated our detailed review procedures for the Accounts Receivable submission to

include a special review for this column. The Accounts Receivable submission, which includes over 800 manual entries, is reviewed on multiple levels and by reviewers from different functional areas to ensure accuracy. The updated procedures will strengthen the preparation and review processes.

**Improve Policies over Service Concession Arrangements**

In response to the FY 2017 audit, the Department created policies and procedures for identification and accounting for service concession arrangements as required by Governmental Accounting Standards Board (GASB) Statement No. 60. We value the APA's review and recommendations for improving these procedures. They will be reviewed and updated to include your recommended enhancements and others identified in our review for FY 2019 and future reporting.

**Continue to Strengthen Internal Controls over the Employee Separation Process**

The Department continues to acknowledge that the completion of a separating employee checklist is a means of ensuring all necessary actions are taken to appropriately out process a separating employee. In March 2018, Human Resources revised the Employee Separating Checklist and launched this along with a standard operating procedure outlining roles and responsibilities and the new procedure for collecting the checklists. With the addition of a tracking mechanism, we believe that the agency is in a better position to monitor compliance.

I thank you and your staff for your assistance and guidance during this review.

Sincerely,



Stephen C. Brich, P.E.  
Commissioner

c: The Honorable Shannon R. Valentine  
Chief Deputy Commissioner  
Executive Staff



# COMMONWEALTH of VIRGINIA

Department of Motor Vehicles  
2300 West Broad Street

Richard D. Holcomb  
Commissioner

Post Office Box 27412  
Richmond, VA 23269-0001

January 14, 2019

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
Post Office Box 125  
Richmond, VA 23219

Dear Ms. Mavredes:

Thank you for this opportunity to respond to your latest audit of the Agencies of the Secretary of Transportation for the fiscal year ended June 30, 2018. We are pleased that you found our financial reporting to be properly stated. Furthermore, we sincerely appreciate the professionalism and guidance of your staff.

## **Ensure Timely Notification of Terminations and Transfers**

The Department of Motor Vehicles understands the need for a comprehensive set of controls for ensuring proper de-provisioning of accounts when transferring or terminating users and is taking the necessary steps to bring our current technical controls into alignment with Commonwealth security standards. We are presently involved in a project with VITA's Multi Source Integrator to implement two Identity Access Management platforms that when fully configured will meet all our access control needs. Our expected go-live for the new platforms is early to mid-2019.

## **Improve Information Technology Change Management Program**

The Department of Motor Vehicles recognizes its obligation for the protection of configuration information found within the change management process and has taken the steps necessary to improve it. The current process utilized VITA services that were considered secure in the past but have since been determined deficient for our needs. Effort is being applied to the implementation of the new Change Management platform that was delivered mid-December this year by VITA's vendors after months of delay. The agency feels it's in the best interest of the taxpayers that we make every reasonable effort to ensure this new platform is properly configured to meet the required level of protection and not seek another solution at an additional cost.

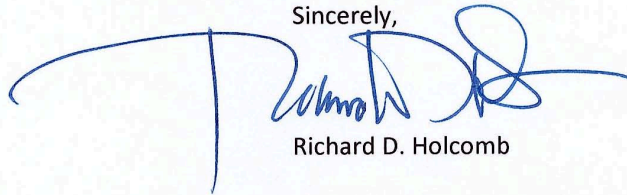


**Improve Training on and Monitoring of the Employment Eligibility Process**

The Department of Motor Vehicles recognizes its requirement properly to complete Employment Eligibility Verification forms (I-9s). Human Resources has taken and will continue to take measures to educate our hiring managers on available I-9 training from the U.S. Citizenship and Immigration Services, how to correctly complete the I-9 forms, make corrections to the I-9 forms, and how to conduct an adequate review of I-9 forms before sending them to Human Resources. In addition, Human Resources will make sure that all I-9 forms are properly filled out before entering them into e-Verify.

The corrective actions are under way and DMV is working diligently to remediate the issues identified in the audit. We look forward to working with you in the future. Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in blue ink, appearing to read 'RDH', is written over the word 'Sincerely,'.

Richard D. Holcomb

RDH:dm

## SECRETARY OF TRANSPORTATION

As of June 30, 2018

Shannon Valentine, Secretary of Transportation

### **Department of Transportation**

Stephen C. Brich, Commissioner

### **Department of Motor Vehicles**

Richard D. Holcomb, Commissioner

### **Commonwealth Transportation Board**

Shannon Valentine, Chairperson

F. Dixon Whitworth, Jr., Vice-Chairman

Stephen C. Brich

Carlos M. Brown

Henry “Hap” Connors, Jr.

Alison DeTuncq

Bert Dodson, Jr.

Mary H. Hynes

Stephen A. Johnsen

E. Scott Kasprowicz

John Malbon

W. Sheppard Miller, III

Jennifer Mitchell

Raymond D. Smoot, Jr.

Jerry L. Stinson

Marty Williams

Greg Yates